BY JOHN A. GORMAN

Corporate Financing in 1961 and in Recent Business Cycles—

Investment Potential Increases

THE rapid advance in production during the spring and summer quarters, featuring sharp increases in corporate activity and profits from the cyclical low of the first quarter, was accompanied by the usual marked changes in assets and liabilities. Management made a sharp reversal in inventory policy, and there was an increase in other working capital investment. Plant and equipment programs have firmed up with advancing business, but, as would be expected in the initial period of cyclical advance, the indicated rise has so far been moderate.

These investment expenditures have been financed without difficulty by: (a) the recovery in internally generated funds as profits turned upward after the earlier sharp downturn; (b) new stock and bond issues made on generally favorable terms; and (c) normal increases within the corporate structure in accounts payable as sales moved ahead. The last item is reflected in the nonconsolidated statistics given in table 1. Items (a) and (b) would remain in a consolidated statement for the corporate sector. The funds from these sources more than covered investment requirements and there was a substantial increase, as usual at this cyclical stage, in corporate holdings of liquid assets.

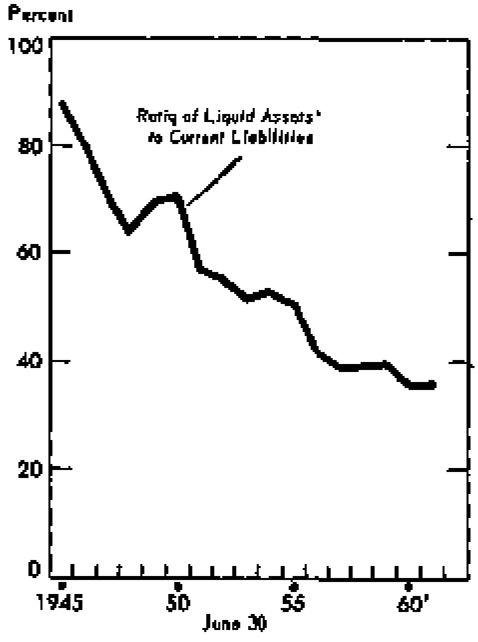
Developments are thus the reverse of those which occurred during the business downswing in late 1960 and early 1961, when corporations engaged in substantial inventory liquidation as sales weakened, and outlays on plant and equipment declined as the utilization of existing facilities fell off. Over the same period customer credit and bank loans also declined and the internal flow of funds shrunk. New bond and stock issues, however, continued to be floated successfully and liquid assets were comfortably maintained in the aggregate.

Corporate financial behavior in the recent decline and recovery has, in general, conformed to the pattern observed during similar periods in the past. The principal exceptions to this generalization have been in the behavior of inventory investment and in the volume of bond issues.

The recovery in inventory buying came much earlier than in previous periods of economic recovery. Firms started accumulating inventories during the quarter in which economic activity first moved up; in earlier recovery periods the buildup in inventories was not pronounced until the second or third quarter or more after the low point in business activity. During the current upswing, very heavy bond flotations occurred in the months immediately following the low point in economic activity, whereas in previous cycles, the heaviest bond flotations had occurred prior to the recovery.

CORPORATE LIQUIDITY
Unchanged in 1961

Adjustment From Abnormally High Early Postwar Years Completed



*Cash, deposits, and U.S. Government securities.

U.S. Department of Commerce, Office of Business Economics 61-11-8

Corporate investment rising

The inventory advance during the spring and summer quarters was widespread, but the rise was most marked among durable goods industries, to which the previous liquidation had been confined. Nondurable goods inventories continued to increase throughout the recession and recovery period. The marked rise in customer receivables which accompanied the increased volume of production mainly reflected credit advances within the business community. There was little increase in consumer financing during this period.

Plant and equipment outlays showed some evidence of advance during the past 6 months, although during the third quarter they were still below their prerecession highs. In the past plant and equipment spending tended to lag behind the upward movement in general business activity, and one of the important factors in further business expansion will be the strength which develops in this investment segment.

Sources of corporate funds

Corporate profits, after hitting a low of $40 billion at annual rates in the first quarter, recovered to $45 billion in the second, and the advance has continued into the third. With dividends stable, and taxes taking as usual about half the pre-tax profit rise, the other half of the increase in profits was retained for corporate use. Over the same period, the steady rise in depreciation charges on the growing capital stock also contributed to the enlarged cash flow, which moved up nearly $5 billion during the second and third quarters.

The increasing volume of accounts receivable was largely offset by a corresponding rise in trade payables, as such transactions are largely within the corporate sector. From the standpoint of the individual corporation, however, such items represent either net drains upon or additions to their capital, just as in the case of any other debt. As in the same stage of previous expansions, the upsurge in these items was somewhat greater than the rise in sales. There was relatively little change in the liabilities of corporations to commercial banks.

New security issues during the second quarter were especially heavy; over $3½ billion of bonds and notes were issued, along with $1½ billion of stock. This was the heaviest total of bond issues since the beginning of 1958, as firms anticipated future requirements or refinanced outstanding debt while borrowing costs were favorable. As pointed out earlier, bond flotations tend to be heaviest before recovery; the atypical behavior in recent months may have been due to the quick upturn in business. Considering the time necessary between the decision to issue bonds, and the actual flotation, the heavy sales during the second quarter may have reflected decisions made during the downward phase of the cycle. In this latter connection, it is noteworthy that the volume of bond issues declined to $1¾ billion in the third quarter—a more normal rate for this phase of the cycle than the $3½ billion of the second quarter.

Liquid assets rise

There has been a sharp spurt in corporate liquid asset holdings over the past 6 months. During the spring quarter, corporate holdings of cash and short-term Treasury securities showed a slight rise at a time of the year when there is usually a seasonal decline of $1½–2 billion. During the summer, when these holdings typically show only a moderate rise, corporations increased their holdings sharply.

As a result of the increased holdings of cash and Treasury securities, corporations maintained their liquidity in the face of rising operations. (See chart on page 17.) The chart also shows that there has been a marked downtrend in the conventional liquid asset ratio—cash and U.S. Treasury securities divided by current liabilities—since the end of World War II. The pace of the decline has slackened considerably in the past few years, however, and present ratios are not substantially below those ruling at the same stage of the previous cycle. Further, the transition to a tax payment schedule more closely alined with the accrual of tax liabilities has reduced one of the major liabilities against which liquid assets are held.

If tax reserves were deducted from both sides of the accounts, there would be no significant downtrend in the ratio of liquid assets to current liabilities during the past 5 years.

Financial conditions easy

Despite increased demands by corporate and other borrowers on the money and capital markets during the second and third quarters, the upward movement of interest rates was moderate in comparison with those experienced during the recoveries of 1958–59 and 1954–55.

The relative ease in the financial markets reflects the attempts of the monetary authorities to facilitate continued recovery by keeping the money market in a position favorable to borrowers. Reserves made available by the Federal Reserve System have been adequate to support a $1 billion increase in demand deposits and a $7½ billion expansion in savings and time deposits, while maintaining net free reserves at $½ billion since the beginning of this year. At the comparable stage of the 1958–59 rise, after a lesser rise in deposits, net free reserves had fallen to about $0.1 billion. With business loan demand low until recently, the banks stepped up their investment in short-term Treasury securities, State and local bonds, and mortgages.

Corporations were active on both sides of the money and capital markets throughout the recovery and, as the period progressed, funds supplied by

Table 1.—Sources and Uses of Corporate Funds, Annual, 1957–60; Half Years, 1957–61 [1]

[Billions of dollars]

	1957	1958	1959	1960	1st half 1957	1st half 1958	1st half 1959	1st half 1960	1st half 1961	2d half 1957	2d half 1958	2d half 1959	2d half 1960
Sources, total	43.6	35.5	54.7	43.6	18.0	12.4	26.9	21.7	18.9	24.5	23.5	27.8	22.0
Internal sources, total	28.0	26.0	30.6	30.3	14.0	11.0	14.9	15.6	16.3	13.4	14.1	14.0	14.7
Retained profits [2]	9.0	5.7	9.1	7.4	5.2	1.0	4.9	4.3	3.3	3.7	3.8	3.7	3.1
Depreciation	19.1	20.3	21.5	22.9	9.4	10.0	10.0	11.3	12.0	9.7	10.3	10.9	11.6
External long-term sources, total	11.9	11.0	9.6	9.0	6.1	5.6	4.0	4.5	6.0	5.8	5.5	5.1	5.2
Stocks	3.5	3.6	3.7	3.0	2.2	1.5	2.1	1.6	2.8	1.3	1.8	1.6	1.4
Bonds	7.0	5.9	4.1	5.0	3.3	3.2	1.9	2.9	2.7	3.7	2.6	2.3	3.1
Other debt	1.4	1.5	1.7	1.0	.6	.9	.7	.0	.5	.8	.8	1.2	.7
Short-term sources, total	2.6	2.7	14.6	3.7	−2.7	−4.9	9.4	1.6	−1.4	5.3	7.5	5.1	2
Bank loans	.3	−.4	3.5	1.6	1.0	−2.3	.5	1.1	−1.0	−1.3	1.9	3.0	.4
Trade payables	2.4	3.6	6.7	2.2	−.4	1.9	5.5	1.3	.7	2.6	1.9	3.2	.9
Federal income tax liabilities	−2.2	−2.5	2.4	−1.5	−6.1	−5.6	.5	−2.4	−2.1	2.9	3.2	1.8	.9
Other	2.1	1.6	2.0	1.5	1.2	1.3	1.0	1.6	1.0	.9	.5	.1	−.1
Uses, total	40.3	35.3	51.9	41.2	16.4	8.4	26.0	19.9	19.6	23.9	26.0	26.0	21.3
Increase in physical assets, total	34.8	24.0	33.4	33.6	17.8	10.9	17.4	18.5	15.2	17.0	13.2	16.0	15.2
Plant and equipment	32.7	26.4	27.7	30.6	15.6	13.0	12.8	14.6	14.7	17.1	13.4	14.9	16.1
Inventories (book value)	2.1	−2.4	5.7	3.0	2.2	−2.1	4.6	3.9	.5	−.1	−.2	1.1	−.9
Increases in financial assets, total	5.5	11.2	18.5	7.5	−1.4	−2.4	8.6	1.4	4.3	6.9	13.7	10.0	6.1
Receivables	4.5	6.7	12.2	7.7	2.2	.5	6.2	3.7	2.7	2.3	6.0	6.0	4.0
Consumer	.9	−.3	2.6	1.7	−.5	−1.0	(3)	−.2	−1.0	1.5	1.3	2.6	1.9
Other	3.6	7.0	9.6	6.0	2.7	2.3	6.1	3.9	4.3	.8	4.6	3.4	2.1
Cash and U.S. Government securities	−.3	2.6	3.6	−3.1	−4.2	−4.4	.4	−4.4	−1.1	3.9	7.1	3.2	1.3
Cash (including deposits)	.1	2.5	−.2	−.2	−2.0	−.5	−1.5	−2.6	−.8	2.1	3.0	1.3	2.4
U.S. Government securities	−.4	.1	3.8	−2.9	−2.2	−3.9	1.9	−1.8	−.3	1.8	4.1	1.9	−1.1
Other assets	1.3	1.9	2.7	2.0	.6	1.2	2.0	2.1	2.7	.7	.7	.8	.8
Discrepancy (uses less sources)	−2.2	−4.2	−2.8	−2.4	−1.5	−4.3	−.9	−1.8	−.4	−.6	(3)	−1.9	−.6

1. Excludes banks and insurance companies.
2. Includes depletion.
3. Less than $50 million.

Source: U.S. Department of Commerce, Office of Business Economics, based on Securities and Exchange Commission, and other financial data.

corporations tended to increase relative to their demands. With corporations supplying funds to the short-term market, and borrowing from the long, long-term interest rates rose, while short-term yields showed little change.

Stock market prices have risen over the recovery period at a faster pace than earnings. The common stock earnings-price ratio is very favorable to equity financing and funds seeking equity investments are ample as indicated by all the stock market price averages. Corporate earnings and dividends have never been valued at such high levels during prosperous periods.

Depreciation allowances

Depreciation allowances have moved steadily upward. (See chart on page 23.) The growth in capital charges has stemmed principally from a higher capital stock, but changes in accounting methods have also played a role. In the past 4 years, however, the increase in charges has approximately paralleled the stock of capital, as the effect of the more liberal provisions of the 1954 Internal Revenue Code has been offset by the completion of amortization on facilities installed under the Korean War program. With the latter factor of minor importance in recent quarters, depreciation charges are again rising faster than the capital stock.

The adequacy of present depreciation allowances is being reviewed by the Administration. In the past few weeks, for example, it has moved towards greater liberalization by reducing the writeoff period for the textile industry from 25 to 15 years.

Corporate Financing During Cycles

The chart on page 29 illustrates the behavior of corporate sources and uses of funds during recession, recovery, and expansion periods. The recessions and recoveries have been most evident in working capital uses, short-term borrowing, and internally generated funds. Movements in plant and equipment spending have tended to lag in the business cycle, as has recourse to external long-term sources. With internal sources rising before capital outlays, corporations increased their liquid assets in recovery; at other periods they drew on these assets.

The business recessions and recoveries experienced during the years since the war do not exactly span 12-month periods, but the absence of seasonally adjusted data requires the use of annual totals for analytical purposes. Since the most recent recessions have begun around midyear, the typical behavior of corporate financing during the cycle since 1953 can be more adequately illustrated by data covering years ended in June rather than December.

In the discussion which follows, the term "recession year" is applied to the four quarters which include the recession phase of the cycle; i.e., calendar year 1949, and the years ended June 30, 1954, 1958, and 1961. "Recovery year" in like manner characterizes the four quarters during which economic activity regained and moved beyond the prerecession totals; i.e., calendar year 1950, and the years ended June 30, 1955 and 1959. The term "expansion" refers to periods following the recovery and preceding the subsequent contraction.

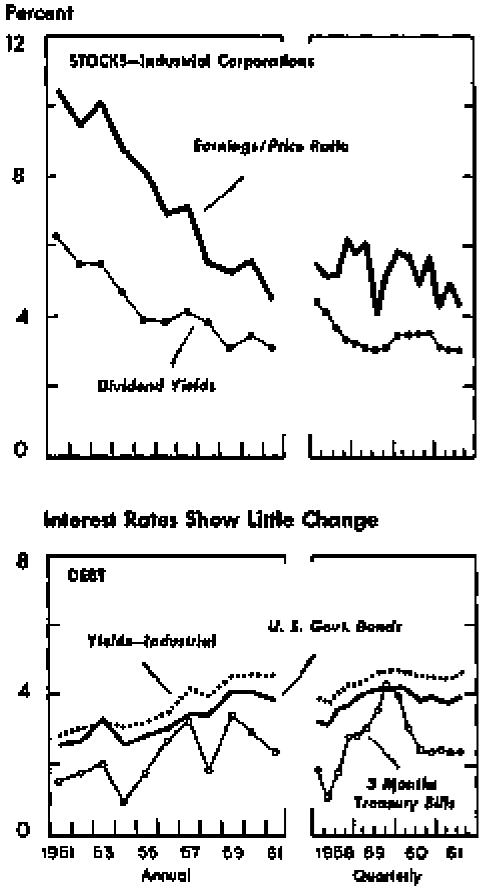
It is recognized that the output recovery in the economy in the second quarter of 1961 more than made up for the decline of the preceding three quarters. However, this does not apply to most of the items included in the study of corporate finance. For this reason, we have considered the 12 months ended June 30, 1961, as the recession year comparable to the 12 months ended June 1958, and June 1954. Comparison of data for the periods ended March 1960 and March 1961 yielded results little different from those shown in the chart.

The pattern during business recession

Every postwar business recession has featured sharp reductions in working capital investment, while declines in fixed capital spending have been relatively smaller. Funds available from internal sources declined sharply, as did short-term borrowing, but long-term flotations increased to take advantage of improved borrowing terms. There was relatively little change in liquid asset holdings over these periods. The 1960–61 recession generally conformed to this pattern though the changes were smaller due to the mildness of the decline.

FINANCING COSTS

Common Stock Yields Move Down



Note: 1961 is 9 month average

Data: Moody's

U. S. Department of Commerce, Office of Business Economics

The sharp swing from inventory accumulation to liquidation which was characteristic of each postwar recession was reflected in substantially reduced working capital requirements. The $5½ billion of inventories liquidated during the four quarters ended June 1961, for example, meant a $5½-billion reduction in financing from that associated with the $5-billion buildup of the previous four quarters. Credit granted to customers totaled only $6½ billion during fiscal 1961, as compared with $10 billion the previous year. Lower working capital needs were reflected in reductions in borrowing through short-term bank loans and in trade payables as sales dropped. During the 1961 recession, there was $½ billion of net short-term borrowing, in contrast to the $9¾ billion borrowed from these sources during the previous year.

Corporations tended to cut back on capital spending during the downturns, although the decline in fixed capital outlays was much smaller, and slower, than that in working capital uses. Plant and equipment investment fell off much less during the 1960–61 recession than in earlier ones. In addition to the mildness of this most recent decline in business, this reflected the fact that the 1959–60 rise in capital outlays was sluggish and failed to top the previous high.

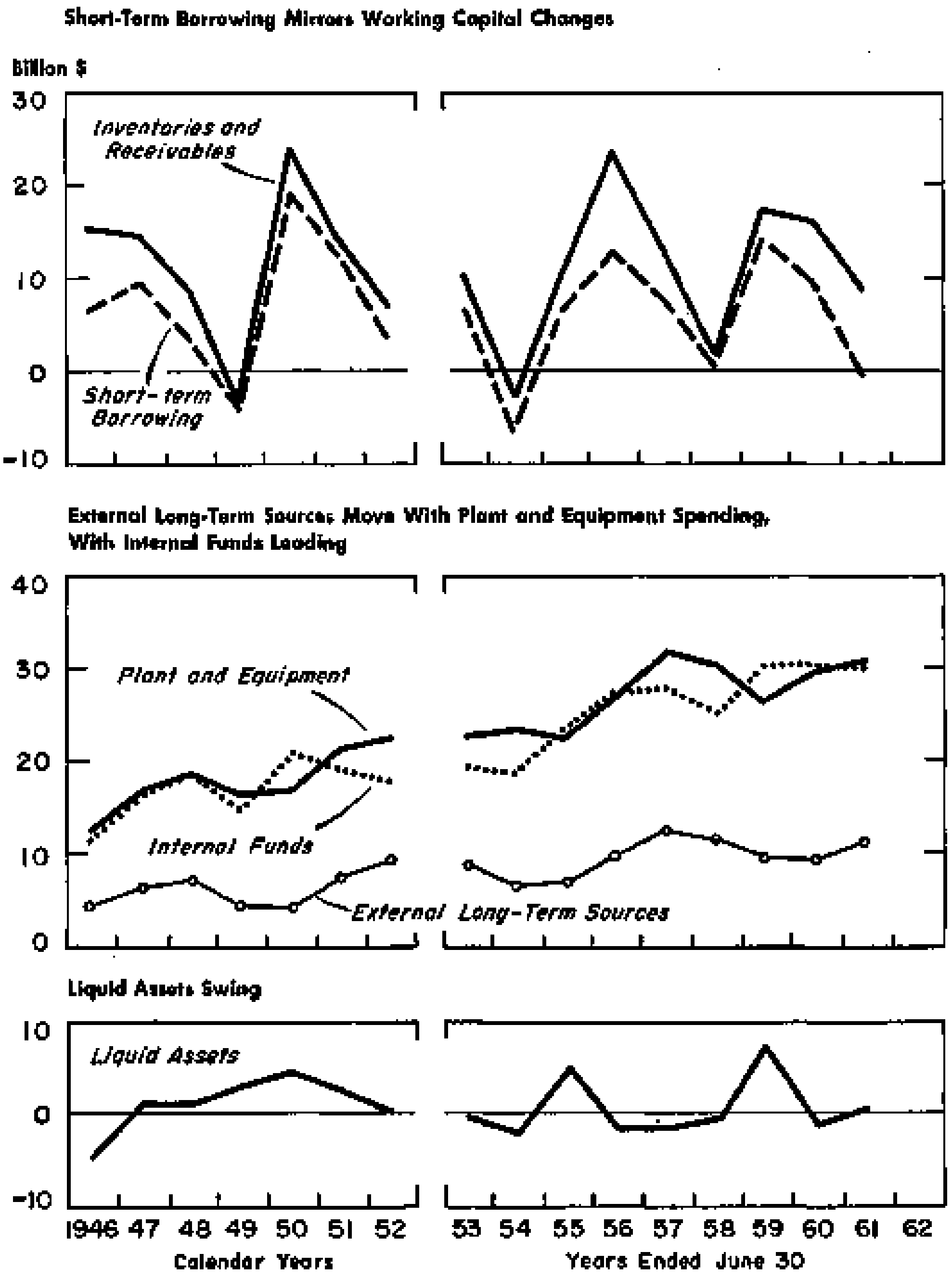
The principal components of internally generated funds behave in opposite fashion during recessions: undistributed profits fall and depreciation allowances rise. Each postwar recession had a severe impact on before-tax profits; the $3-billion decline in fiscal 1961 was not as great as that experienced in earlier recessions, partly because this period included one quarter of vigorous recovery. Except in 1954, when the repeal of the excess profits tax served to maintain after-tax earnings, about half the dollar decline in pre-tax profits was reflected in retained earnings as corporations generally maintained stable dividend payout policies during these periods.

In part, the retained earnings decline during periods of recession has been offset by a rise in depreciation allowances stemming from continued growth in the capital stock. During the fiscal year 1961, for example, such allowances rose $1½ billion.

Corporations tend to increase their gross long-term borrowings in periods of recession to improve their debt structure and to meet continuing capital needs, which, though reduced, are still large. The step-up in bond flotations reflects also the impact on corporate financing policies of the lower interest rates ruling during recession. There are increased flotations to repay previously incurred bank debt, and to refinance outstanding bonds into instruments bearing lower interest rates. As noted earlier, such borrowings peaked after the low point of the 1960–61 recession had been passed.

There has been little change in corporate liquid asset holdings in recent recessions; however, each recession since the early 1950's has featured a shift in composition from U.S. Treasury bills to time and other bank deposits as the cost of holding cash declined and as companies took advantage of differential movements in interest rates. For example, during the 1960–61 recession, corporate holdings of U.S. Treasury securities were reduced $1½ billion, while their holdings of bank deposits were increased by a like amount. During the same period some corporations took advantage of differential movements in domestic and foreign

CORPORATE FINANCING



U. S. Department of Commerce, Office of Business Economics 61-11-10 interest rates by temporarily investing some funds in short-term foreign securities.

The pattern during recovery

The recovery phase of recent cycles has featured a reversal from decreases to increases in inventory holding, customer credit, and associated borrowings. Fixed capital spending normally turns up rather late in the recovery period, but it tends to average lower in this period than during the downswing. Retained profits and total liquid asset holdings tend to move up sharply. Comprehensive sources and uses data on the current recovery will not be available for some time. Such data as are now at hand indicate that the current advance is generally similar to earlier ones differing mainly in the faster rate of advance in working capital and in the generally easier tone of the money and capital markets which have generally accommodated their needs to date. While the current advance may not duplicate previous rises exactly, it may be of some interest to review the experience of the 1958–59 recovery.

Inventories rose $4½ billion during the 12 months ended June 1959, and customer credit accomodation amounted to over $12 billion in that period. These sharp advances in working capital requirements during the recovery period were accompanied by rises in short-term bank loans and in trade accounts payable. During the 1958–59 recovery, the total of such short-term borrowing aggregated $8 billion.

Although plant and equipment outlays started rising in the fourth quarter of 1958, such spending aggregated only $26 billion during the 12 months ended June 1959—off $4 billion from the previous year. With profits reflecting improved business conditions, retained earnings increased $3½ billion, while capital consumption allowances rose another $1½ billion. With funds from internal sources rising and little incentive to refinance outstanding bank debt because of rising interest rates, bond issues declined $2¼ billion.

These developments permitted substantial acquisitions of liquid assets during the recovery phase. In the four quarters ended June 1959, corporations acquired $1¾ billion of bank deposits, and $6 billion of Treasury securities.

The pattern during periods of economic expansion

With the economy now continuing to advance beyond previous peaks, it may be of some interest to review the experience of similar periods, as shown in the data on the sources and uses of corporate funds. During the economic advance corporations tend to build up their inventories and extend credit to their customers in line with the expansion of sales, and short-term borrowing tends to follow the behavior of working capital needs. As economic expansion continues, corporate investment in new plant and equipment picks up. During the expansion phase profit margins tend to come under some pressure, and retained earnings cease to grow although capital consumption allowances continue to rise with the depreciation base. This slowing in the growth of internal funds as investment in fixed productive facilities rises is reflected in increased issues of stocks and bonds, as well as in reductions in the volume of liquid asset holdings.

During earlier periods of sustained expansion, interest costs generally have advanced as bank reserve positions tightened. The funds available from non-bank institutional lenders were substantially unchanged. As the economic expansion continued, corporations found it more difficult to borrow the amounts in excess of internal funds needed to finance expanding investment programs, and met their needs in part by drawing on liquid assets accumulated during the earlier recovery phase.

As noted earlier, the authorities have in recent months kept the money market in a position favorable to borrowers, and, at the end of the third quarter, corporations were in a generally liquid position.

Investment and Financing by Industry

The mining, manufacturing, and trade industry groups accounted for the bulk of the sharp rises in inventories, customer credit, and internal funds which occurred in the current recovery. Fixed investment by these firms has so far shown but little increase, and they added substantially to their liquid assets.

Fixed capital spending by the public utility and communications groups while showing little rise, have remained high. They drew heavily on the capital market during the second quarter, using the proceeds to meet their capital needs, to refinance higher-cost debt, and to build up their liquid asset holdings, at least temporarily. Finance companies' lending operations showed little increase during this period, and these companies improved their liquidity position by reducing bank debt.

In discussing the behavior of the different industries in business cycles, it is recognized that the manufacturing and trade groups hold the bulk of all corporate inventories, and cyclical fluctuations associated with accumulation and liquidation of inventories are largely confined to these industries. Moreover, cyclical movements are very important in industries producing and distributing durable goods. As a result, the cyclical behavior of corporations described earlier is to a large extent determined by the manufacturing and trade industries, and by the durable segment of these industries in particular.

The public utilities and communications industries are of great importance in the capital market, as their capital expansion accounts for a substantial portion of total fixed investment and they meet a high proportion of their investment needs in this market. In addition to financing their current requirements, communication and utility firms have on occasion entered the markets in volume when interest costs have favored the refinancing of outstanding obligations.

Manufacturing and mining

The dominating influence of manufacturing and mining firms on cyclical fluctuations in corporate financing can be illustrated by developments during the 1960–61 recession when total uses for these industries declined $3 billion, about three-fifths of the total decline.

In the 1957–58 recession they had accounted for more than nine-tenths of the decline in total uses for all nonfinancial corporations.

Cyclical fluctuations among mining and manufacturing firms center in working capital, as both inventory buying and customer financing move sharply downward in recession and upward in recovery, while plant and equipment outlays display the same lagged reaction to cyclical changes noted earlier in the discussion of the all-industry figures.

On the sources side, changes for this cyclically sensitive group are reflected principally in the behavior of internal funds and short-term borrowing, while external long-term sources are less directly affected. The swings in corporate sales during the course of the cycle are quickly reflected in fluctuations in profits, which are carried through to internal fund sources. The sharp alteration in the requirements for working capital lead to similar moves in short-term borrowing. The reliance of manufacturing and mining firms on stock and bond issues to finance investment is much less extensive than for corporations generally. Their resort to these sources has been heaviest in periods when investment spending was moving up relative to internal funds, and are thus highest during periods of sustained economic expansion.

With manufacturing and mining profits rising faster than investment during recovery, these companies add substantially to their liquid assets during such periods. At other times, manufacturing and mining firms generally draw down their previously accumulated liquid assets, with liquidation highest during periods when investment rose faster than funds available from internal sources.

Trade and transportation

Among trade firms, the fragmentary data available indicate a cyclical pattern much like that just described for manufacturing and mining, at least with respect to current sources and uses. But, the growth of suburban shopping centers and related facilities has resulted in a rising trend in fixed capital spending which has persisted through periods of recession.

Transportation firms do not hold significant inventories, and the impact of business fluctuation on their investment and financing transactions is less direct than in the case of manufacturing, mining, and trade firms even though their traffic volume is quite sensitive. They have, however, shown mild swings in receivables and payables as the volume of traffic has fluctuated.

Capital spending by the railroads, which has been low and declining in recent years with the poor earnings they have been able to report, tends to drop off during recessions and, while increasing some during the subsequent recoveries, has not regained previous peaks. Railroads have been retiring long-term debt in recent years, trying to improve their earnings status, but these retirements have shown little relation to the business cycle. Among nonrail transportation firms, plant and equipment outlays turned down moderately last year after a sustained increase since 1958, as the purchase of new jets and allied equipment was reduced, but here again the earnings position of the air carriers has worsened through the third quarter of 1961.

Public utilities and communications

Firms operating in the public utilities and communications industries have been characterized by very little fluctuation in output over the cycle, and the relation between their financing requirements and the business cycle has been limited. Profits are regulated by government agencies and the bulk of these after-tax earnings are paid out to shareholders, leaving depreciation allowances as the principal source of internal funds. Both industry groups have been faced with strong and growing demands for their services and have spent over twice as much on facilities expansion as was available to them from internal funds. They have resorted to the issue of stocks and bonds for the balance of their financing needs, and accounted for about two-fifths of total security issues in most of the postwar years, though their portion of total investment was only on the order of one-fourth.

Although the communications and utility industries have many points of similarity, their investments have moved differently in recent years. Public utility investment and borrowing peaked in the year ended June 1958, and has since been running at somewhat lower rates. Comminications firms have increased their investment spending and security issues during the past three years.

One of the interesting aspects of current security markets is the extent to which utility stocks have advanced. Laggards over much of the postwar period, these have been leaders in the security price rise during the past 2 years. Compared with earlier 1959 highs, for example, the SEC stock price index shows the utility average up 42

Table 2.—Sources and Uses of Corporate Funds by Industry, Years Ended June 30, 1958–61

[Billions of dollars]

	Manufacturing and mining				Railroads				Transportation other than rail				Public utilities and communications			
	1958	1959	1960	1961	1958	1959	1960	1961	1958	1959	1960	1961	1958	1959	1960	1961
Sources, total	14.6	26.8	22.8	19.5	0.2	0.3	0.7	0.6	1.7	1.9	2.1	1.7	8.3	8.0	8.0	8.6
Retained profits [1]	4.4	7.2	6.6	5.0	−.2	−.1	−.2	−.2	(2)	(2)	−.1	−.1	(2)	.4	.5	.4
Depreciation	9.9	10.5	11.0	11.7	.9	.9	.9	.9	1.1	1.2	1.3	1.6	2.9	3.3	3.3	3.4
External long-term sources [3]	3.1	2.5	1.7	2.7	−.2	−.2	−.1	−.2	.6	.5	.4	.4	5.2	3.7	3.4	4.4
Short-term sources [4]	−2.5	6.6	3.5	.2	−.3	.3	.2	(2)	.1	.2	.4	(2)	.1	.7	.8	.2
Uses, total	11.6	25.6	19.3	16.3	.5	1.2	.8	.5	1.3	2.0	2.1	1.8	9.8	9.1	8.7	10.0
Plant and equipment	14.0	11.9	14.3	14.0	1.2	.7	1.0	.8	1.5	1.4	1.9	1.6	9.1	8.5	8.6	8.9
Inventories (book value)	−2.7	2.9	3.4	−1.2	−.1	(2)	(2)	−.1	(2)	(2)	.1	(2)	(2)	(2)	(2)	(2)
Receivables and misc. assets	(2)	5.8	3.6	3.5	−.1	(2)	(2)	(2)	.1	.3	.2	.2	.3	.5	.3	.5
Cash and U.S. Government securities	−.7	4.8	−1.0	−.9	−.6	.5	−.1	−.2	−.2	.3	.1	.1	.4	(2)	(2)	.6
Discrepancy (uses less sources)	−3.3	−1.3	−3.5	−3.2	.3	.4	.2	(2)	−.4	(2)	(2)	.2	1.5	1.1	.7	1.4

1 Includes depletion.
2 Less than $50 million.
3 Includes stocks, bonded debt, long-term bank loans, mortgages and other long-term debt.
4 Includes short-term bank loans, trade payables, Federal income tax liabilities, and miscellaneous liabilities.

Source: U.S. Department of Commerce, Office of Business Economics, based on Securities and Exchange Commission, and other financial data.

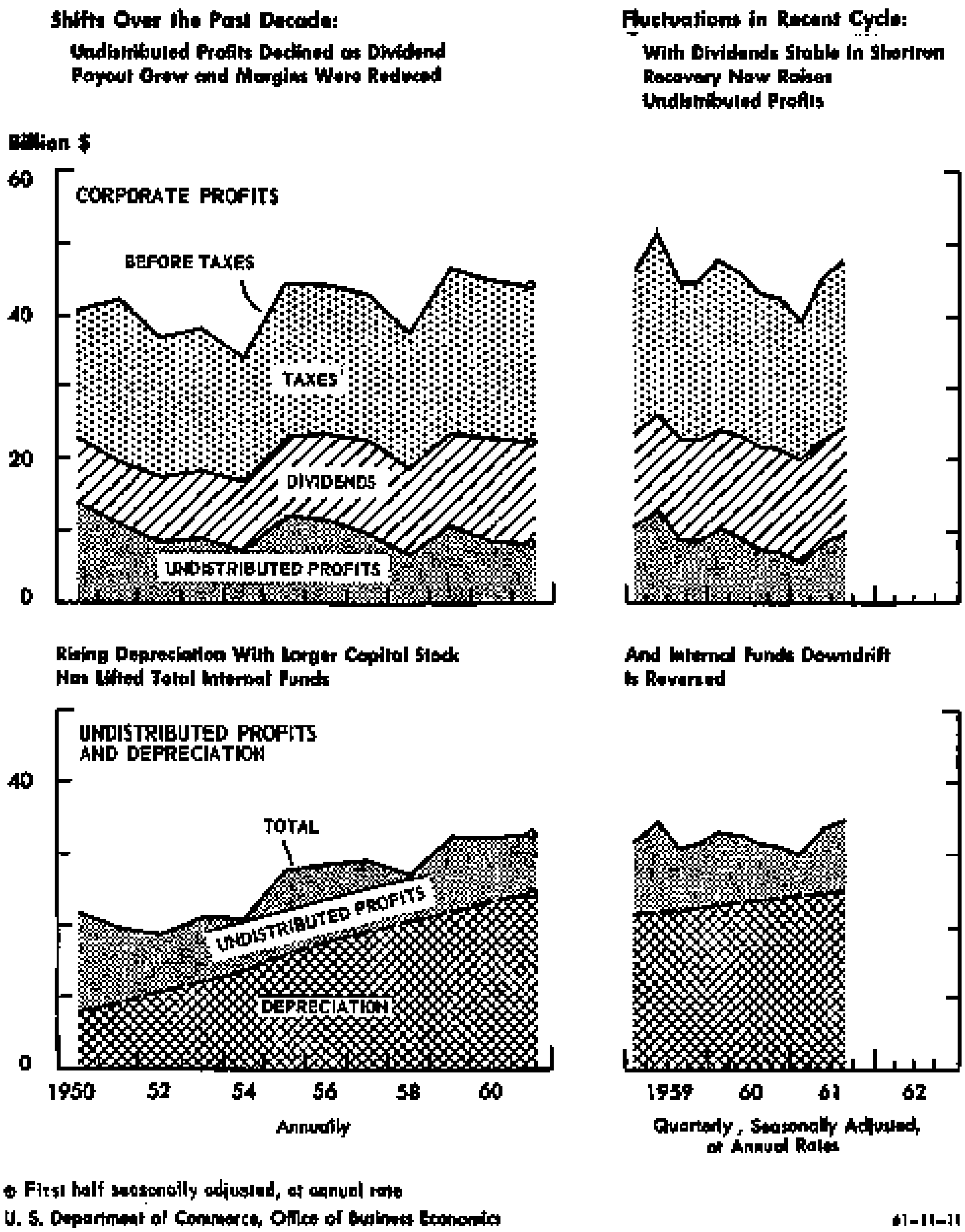
percent as compared with about 11 percent for manufacturing stocks. Despite recent gains, the postwar rise in utility stock prices is still far short of that for the manufacturing stocks.

Finance and real estate

The statistics on corporate funds sources and uses shown in table 1 include the operations of sales and consumer finance companies, investment companies, and real estate firms. Incomplete data indicate that the operations of sales finance companies are closely related to the stage of the business cycle, as their loans to dealers and cosumers peak during periods of high automobile sales and decline when auto activity slackens. During these peak periods, they have generally financed their credit extensions by short-term borrowing, particularly from banks. During recessions, they have generally taken advantage of lower interest rates to refinance outstanding debt from short- to long-term instruments. During the four quarters ended June 1961, finance companies issued over $1 billion of new securities, replacing short-term bank debt.

Investment companies have been growing very rapidly in recent years and their operations have been little affected by the business cycle. Such firms obtain funds by issuing shares to investors and then employing the funds to purchase securities, particularly stocks. While owner redemption has shown a rising tendency, new sales have grown faster, and these companies are among the fastest growing financial institutions in the country. Although the funds acquired by these companies generally do not provide direct financing to other corporations, their activities have supported stock prices, and, to this extent, eased the financing problems of nonfinancial corporations.

DISPOSITION OF CORPORATE PROFITS



⊕ First half seasonally adjusted, at annual rate

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New or Revised Series—Gas, Quarterly: Revised Data for Page S-26

Item	1960 I	1960 II	1960 III	1960 IV	1960 Quarterly average
Manufactured and mixed gas:[1]					
Customers, end of quarter, total .... thous..	2,494	2,462	2,386	2,165	2,374
Residential .... do....	2,328	2,280	2,230	2,024	2,218
Industrial and commercial .... do....	165	182	164	140	155
Sales to consumers, total .... mil. therms..	937	514	289	544	568
Residential .... do....	715	340	161	380	403
Industrial and commercial .... do....	200	169	123	160	162
Revenue from sales to consumers, total . mil. $..	116.0	69.0	42.0	68.8	74.4
Residential .... do....	93.2	52.6	29.9	53.1	57.2
Industrial and commercial .... do....	23.0	16.7	12.6	15.5	16.9

Item	1960 I	1960 II	1960 III	1960 IV	1960 Quarterly average
Natural gas:[1]					
Customers, end of quarter, total .... thous..	30,388	30,233	30,253	31,349	30,554
Residential .... do....	27,892	27,800	27,869	28,778	28,087
Industrial and commercial .... do....	2,460	2,388	2,340	2,626	2,431
Sales to consumers, total .... mil. therms..	34,322	21,192	16,472	22,664	22,637
Residential .... do....	18,674	8,449	2,404	7,414	7,668
Industrial and commercial .... do....	15,635	13,001	13,026	13,876	13,907
Revenue from sales to consumers, total .. mil. $..	1,917.4	1,290.8	817.6	1,362.4	1,329.6
Residential .... do....	1,211.0	640.1	328.4	760.3	734.9
Industrial and commercial .... do....	680.4	620.3	460.6	570.6	553.8

[1] Totals include data for components not shown separately.

Source: American Gas Association.